



Understanding property in self managed super funds

Since the introduction of legislation to allow self managed super funds (SMSFs) to borrow money to purchase property, there has been a growing number of people utilising this structure - particularly as it allows the beneficiary greater control over where their funds are invested.

When purchasing property in super there are a number of factors that need to be considered to ensure that it is the right structure to purchase the property.

Acquisition costs

Generally the upfront costs of buying property in an SMSF are higher than if you were to buy the property in your own name. This is particularly the case if you do not currently have an SMSF established. If you are borrowing money for the purchase you will also need to set up a sub-trust within your SMSF at an additional cost. Some lenders will also charge additional application fees for their legal department to review and ensure that all the necessary legal issues of buying property in an SMSF are correct.

Property gearing

When buying property in an SMSF a buyer may make different gearing decisions than if the property was purchased in their own name. It is not uncommon for many individuals to negatively gear an investment property to take advantage of the associated tax deduction at their marginal rate (possibly as high as 48.5%). With many super funds not having the necessary cashflow to fund any shortfall of a negatively geared property, the beneficiary will be required to make continuing contributions to their SMSF to cover the shortfall. These contributions can generally be made before tax but are subject to contribution limits. It is important to note that once funds are invested into an SMSF they cannot be withdrawn until a beneficiary qualifies, generally determined by employment status and age.

Property improvements

There are strict guidelines on how borrowed money in super may be used. You can borrow money for repairs and maintenance but not improvements to the property. Improvements to the property are allowed but must be paid from funds within the SMSF.

Tax rates

SMSFs pay a maximum of 15% tax on income. If the property is sold after 12 months the fund gets a one third discount on any capital gain. The remaining two thirds are added to the fund's income and taxed at 15%. This effectively provides a 10% tax rate on capital gains on sales greater than 12 months. While this is significantly lower than when a property is sold by an individual, the sale proceeds are required to be retained in the SMSF for reinvestment or distribution upon the qualification of the beneficiary.

Ability to occupy

If a property is purchased through an SMSF then at no time is it to be occupied, even for a short period of time, for personal purposes. That means it cannot be used for holiday home purposes even if you pay the super fund the current market rent.

The property can be utilised for business purposes of the beneficiary provided the rent is commensurate with what would be charged to another prospective tenant.

SMSF establishment

It is important to understand that establishing an SMSF can be a lengthy process. Ensure that you put the time and effort into correctly establishing the SMSF before you commence looking for your property.

To ensure that your SMSF property investment is successful, it is important to have a good understanding of your obligations, time commitment and financial responsibilities.